Second Quarter Financial Report June 30, 2020

FRONTIER
FARM CREDIT
AGRICULTURE WORKS HERE.®

Frontier Farm Credit, ACA

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following commentary reviews the consolidated financial position and consolidated results of operations of Frontier Farm Credit, ACA, and its subsidiaries (Frontier Farm Credit). The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations. You should also read our 2019 Annual Report for a description of our organization, operations and significant accounting policies.

CoBank, ACB's financial condition and results of operations materially affect shareholders' investment in Frontier Farm Credit, ACA. To request a free copy of the combined CoBank, ACB and affiliated associations' financial reports, contact us at PO Box 2409, Omaha, NE 68103-2409, (800) 531-3905 or via email to $sr@frontierfarmcredit.com. You may also obtain copies by accessing CoBank, ACB's website at www.cobank.com.

Forward-Looking Information

Any forward-looking statements in this Quarterly Financial Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2019 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Commodity Review and Outlook Update

The Frontier Farm Credit Appraisal team monitors real estate value trends through semi-annual appraisals of seven benchmark farms in eastern Kansas. The Appraisal team updates benchmark farm values based on the most recently reported real estate sales on January 1st and July 1st each year.

For the first six months of 2020, there was an overall increase of 1.1 percent in the benchmark values and in the twelve months ended June 30, 2019 there was a 0.1 percent decrease.

The majority of farmland sales remained stable throughout the first half of 2020. The COVID-19 pandemic has created a high level of uncertainty throughout the entire country, with no industry or commodity left unaffected. Amidst the pandemic situation, interest rates have also hit all-time lows. The low interest rate market has assisted in keeping buyers and sellers relatively active. Quality of land sold has not changed substantially over the past few years and continues to hold steady.

Loan repayment capacity for our loans is largely dependent upon income from corn, soybeans, wheat and cattle.

Commodity prices and associated profit margins declined over the past quarter due to market disruptions associated with the COVID-19 pandemic. Profit margins within the beef sector saw wide swings in commodity prices as processing facilities significantly reduced slaughter capacity due to widespread employee absenteeism and adjustments to the work environment targeted at better protecting their workforce from the spread of the virus. Plant capacity has since re-bounded and the backlog of inventory continues to come down as processing capacity returns to pre-pandemic levels. Beef prices ended the quarter near the lows as improvements in processing capacity created increased supply while demand remained constrained due to the residual effects of the change in consumption patterns created by the pandemic.

Price forecasts for wheat, corn and soybeans remain below cost of production for most producers as overall demand was negatively impacted by the COVID-19 pandemic and reduced export demand for United States crops. Commodity prices for both corn and soybeans reflected wide levels of volatility during the quarter impacted initially by the COVID-19 pandemic and recovering toward the end of the quarter. The June United States Department of Agriculture Report provides some support to both corn and soybeans as the United States Department of Agriculture lowered planted acreage projections for both corn and soybeans as well as a reduction in soybean stocks. Wheat prices declined throughout the quarter finishing at lows for the year. The weather pattern across the Midwest has turned dry and hot with drought indicators increasing which will likely constrain yield results.

Refer to the Commodity Review and Outlook section of Management's Discussion & Analysis in the 2019 Annual Report for further analysis of farmland prices and industry conditions.

Loan Portfolio

Loan volume increased by $76 million from year-end, an increase of 3.7 percent. The increase was primarily due to an increase in long-term agricultural mortgage loans.

We recorded a $2.0 million provision for credit losses (net of provision for loan losses and unfunded lending commitments) for the first six months of 2020, as compared with a $0.8 million provision during the first six months of 2019. The portfolio experienced improvement in the grain industry but this was offset by deterioration in the renewable fuels, cow/calf and beef feedlot portfolios. Net charge-offs for the first six months of 2020 were $263 thousand compared to net charge-offs of $74 thousand in the same period a year ago.

The following table summarizes risk assets and delinquency information (dollars in thousands):

	June 30, 2020	December 31, 2019
Risk loans:		
Nonaccrual	**$ 14,709**	$ 14,515
Restructured	**69**	728
90 days past due still accruing interest*	**130**	-
Total risk loans	**14,908**	15,243
Other property owned, net	**-**	-
Total risk assets	**$ 14,908**	$ 15,243
Risk loans as a percentage of total loans	**0.69%**	0.74%
Nonaccrual loans as a percentage of total loans	**0.69%**	0.70%
Current nonaccrual loans as a percentage of total nonaccrual loans	**54.5%**	51.5%
Total delinquencies as a percentage of total loans	**0.78%**	0.48%

*Accruing loans include accrued interest receivable.

Total risk loans have decreased slightly since year-end. The decrease is primarily due to a decrease in nonaccrual loans in the grain portfolio however this was offset by movement of restructured loans in the renewable fuels portfolio to nonaccrual. It is our practice to transfer accruing loans that are past due 90 days or more into nonaccrual unless they are adequately secured and in the process of collection. Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection. Risk loans as a percentage of total loans remain at acceptable levels.

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, portfolio quality, estimated collateral values, and current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

	June 30, 2020	December 31, 2019
Allowance as a percentage of:		
Total loans	**0.52%**	0.47%
Nonaccrual loans	**74.78%**	66.14%
Total risk loans	**73.79%**	62.98%
Net charge-offs (recoveries) as a percentage of average loans	**0.03%**	-
Adverse assets to risk funds*	**27.56%**	32.59%

**Risk funds includes permanent capital and allowance for loan losses.*

Our adversely classified assets decreased during the first six months of 2020, ending the quarter at 5.60 percent of the portfolio, compared to 6.58 percent of the portfolio at December 31, 2019. Adversely classified are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses, and in our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2020.

Results of Operations

The following table presents profitability information (dollars in thousands):

	For the six months ended June 30, 2020	2019
Net income (in thousands)	**$20,960**	$21,572
Return on average assets	**1.93%**	2.09%
Return on average members' equity	**8.77%**	9.45%

Changes in these ratios are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Funding, Liquidity and Members' Equity section.

Major components of the changes in net income for the six months ended June 30, 2020 compared to the same period in 2019 are outlined in the following table (in thousands):

Increase (decrease) in net income	2020 vs. 2019
Net interest income	**($434)**
Provision for credit losses	**(1,189)**
Noninterest income	**2,173**
Noninterest expense	**(1,162)**
Total change in net income	**($612)**

Net interest income was $27.0 million for the first six months of 2020 compared to $27.4 million for the first six months of 2019. The annualized net interest margin was 2.63 percent for the first six months of 2020, compared to 2.82 percent for the same period in 2019.

The effects on net interest income from changes in average volumes and rates are quantified in the following table for the six months ended June 30 (in thousands):

	2020 vs. 2019
Change in volume	**$1,467**
Change in rates	**(1,750)**
Change in nonaccrual income	**(151)**
Net change	**($434)**

The decrease in net interest income is due to conversion activity to lower interest rates and lower cost of funds.

The variance in the provision for credit losses reflects our assessment of risk in the loan portfolio.

The increase in noninterest income is primarily due to an increase in loan fees from significant conversion activity due to lower long-term rates. The increase in noninterest expense is primarily due to salary, benefits, occupancy and equipment expenses.

Frontier recorded $7.6 million of operating expenses under the income and expense sharing provisions of the alliance agreement in the first six months of 2020 compared to $6.7 million for the first six months of 2019. Refer to Note 1 in our 2019 Annual Report for additional information on the alliance.

Funding, Liquidity and Members' Equity

We borrow from CoBank, ACB under a note payable, in the form of a line of credit. The note payable is collateralized by a pledge of substantially all our assets and is governed by a General Financing Agreement (GFA), which provides for an open-ended revolving line of credit. The line of credit matures on May 31, 2021, and we expect renewal at that time. Substantially all borrower loans are match-funded with CoBank, ACB which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as Frontier Farm Credit is a stockholder of CoBank, ACB, we expect this borrowing relationship to continue into the foreseeable future.

The interest rate may periodically be adjusted by CoBank, ACB based on the terms and conditions of the borrowing. CoBank, ACB has established limitations on our ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At June 30, 2020 and at December 31, 2019 we were within the specified limitations.

Our members' equity increased to $492.2 million at June 30, 2020 compared to $479.9 million at December 31, 2019. The increase was due to the net income recorded for the first six months of 2020.

Farm Credit Administration regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital and permanent capital risk-based capital ratios. In addition, the Farm Credit Administration requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 9 in our 2019 Annual Report for a more complete description of these ratios. The capital adequacy ratios are directly impacted by the changes in capital as more fully discussed in this section and the changes in assets as discussed in the Loan Portfolio section.

In January 2020, we implemented the Farm Credit Administration's exclusion of at-risk capital stock that is financed with a noninterest-bearing obligation from Tier 1/Tier 2 regulatory capital; the impact of the change on our regulatory capital ratios was immaterial. Additionally, the balance sheet treatment of the noninterest-bearing receivable is now reclassified to contra equity in the amount of $8.7 million as of June 30, 2020. This change did not have a material impact on our financial condition, results of operations, cash flows or financial statement disclosures.

	As of June 30, 2020	**As of December 31, 2019**	Regulatory Minimums	Capital Conservation Buffers	Total
Risk-adjusted:					
Common equity tier 1 ratio	**17.69%**	**18.52%**	4.5%	2.5%	7.0%
Tier 1 capital ratio	**17.69%**	**18.52%**	6.0%	2.5%	8.5%
Total capital ratio	**18.11%**	**18.95%**	8.0%	2.5%	10.5%
Permanent capital ratio	**17.75%**	**18.61%**	7.0%	- %	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**19.52%**	**20.27%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage rati	**21.49%**	**21.87%**	1.5%	- %	1.5%

Other Matters - COVID-19

The overall impact of the COVID-19 pandemic on the Association's financial position remains uncertain. As the United States begins to reopen following the initial waive of the pandemic, several states and municipalities are seeing a resurgence in overall infection and hospitalization rates. The extent of this resurgence and the associated impact on the economy will ultimately play a role in determining the long-term impact. The Coronavirus Aid, Relief, and Economic Security [CARES] Act approved by Congress provided direct payments to agricultural producers under several sub-programs which partially mitigated the financial impact to producers, however losses are forecast to exceed the aid initially received.

Despite volatility and uncertainty in the market, we have weathered the significant initial challenges presented by the current operating environment and our operations are fully functioning. Our business continuity response has allowed us to continue to serve our customers and the remote work environment has allowed us to continue to maintain the health of our employees and operate without loss of key functions due to illness. We have not had any significant changes to internal controls over financial reporting due to working remotely or due to limited staff.

While overall credit quality has improved over the past twelve months, the impact of the global pandemic disruption to many agriculture industries, and with commodity prices expected to remain at relatively low levels, grower margins will likely be negatively impacted in 2020. These conditions may result in increases to adverse credit quality and related provision for credit losses.

Certification

This report has been prepared under the oversight of the Board Audit Committee. The undersigned certify that they have reviewed this report and it has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of their knowledge and belief.

Mark Jensen	Shane Tiffany	Craig P. Kinnison
President and CEO	Chairperson, ACA Board of Directors	Executive Vice-President & CFO
August 4, 2020	August 4, 2020	August 4, 2020

Frontier Farm Credit, ACA
Consolidated Balance Sheet
(dollars in thousands)

	June 30, 2020 (unaudited)	December 31, 2019
ASSETS		
Loans	**$2,118,957**	$2,042,932
Allowance for loan losses	**11,000**	9,600
Net loans	**2,107,957**	2,033,332
Accrued interest receivable	**27,075**	28,489
Investment in CoBank, ACB	**65,099**	65,069
Investment in AgDirect, LLP	**5,430**	4,420
Investment in RBIC	**186**	-
Premises and equipment, net	**19,957**	20,345
Prepaid benefit expense	**4,138**	3,584
Other assets	**4,399**	20,086
Total assets	**$2,234,241**	$2,175,325
LIABILITIES		
Notes payable	**$1,737,085**	$1,657,977
Accrued interest payable	**2,403**	3,537
Patronage payable	**-**	17,700
Reserve for unfunded lending commitments	**1,100**	800
Accrued benefits liability	**239**	250
Other liabilities	**1,214**	15,169
Total liabilities	**1,742,041**	1,695,433
MEMBERS' EQUITY		
At-risk capital:		
Class B common stock	**8,494**	8,299
Class C common stock	**216**	233
Less: Capital stock receivable	**(8,710)**	-
Retained earnings	**492,200**	471,360
Total members' equity	**492,200**	479,892
Total liabilities and members' equity	**$2,234,241**	$2,175,325

The accompanying notes are an integral part of these financial statements.

Frontier Farm Credit, ACA
Consolidated Statement of Income
(dollars in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
NET INTEREST INCOME				
Interest income	**$21,436**	$24,962	**$45,085**	$49,966
Interest expense	**7,930**	11,338	**18,077**	22,524
Net interest income	**13,506**	13,624	**27,008**	27,442
Provision for credit losses	**2,322**	1,084	**1,963**	774
Net interest income after provision for credit losses	**11,184**	12,540	**25,045**	26,668
NONINTEREST INCOME				
Patronage income from CoBank, ACB	**1,548**	1,610	**3,049**	3,229
FCSIC Insurance refund	**-**	-	**454**	490
Loan fees	**1,347**	198	**2,941**	540
Insurance services	**21**	20	**162**	165
Distribution from AgDirect, LLP	**168**	223	**376**	420
Mineral income	**236**	277	**529**	690
Rural 1st program fees	**177**	-	**287**	-
Other noninterest income	**5**	52	**4**	95
Total noninterest income	**3,502**	2,380	**7,802**	5,629
NONINTEREST EXPENSE				
Salaries and employee benefits	**4,738**	4,128	**9,401**	8,496
Occupancy and equipment expense	**743**	534	**1,390**	1,055
Insurance fund premiums	**326**	343	**646**	692
Other operating expenses	**(855)**	(1,183)	**368**	482
Loss on RBIC	**13**	-	**13**	-
Other noninterest expense	**-**	-	**69**	-
Total noninterest expense	**4,965**	3,822	**11,887**	10,725
Income before income taxes	**9,721**	11,098	**20,960**	21,572
Provision for income taxes	**-**	-	**-**	-
Net income	**$ 9,721**	$ 11,098	**$20,960**	$21,572
COMPREHENSIVE INCOME				
Amortization of retirement costs	**-**	46	**-**	92
Comprehensive Income	**$ 9,721**	$ 11,144	**$20,960**	$21,664

The accompanying notes are an integral part of these financial statements.

Frontier Farm Credit, ACA
Consolidated Statement of Changes in Members' Equity
(dollars in thousands)
(unaudited)

	Accumulated Other Comprehensive Income/(Loss)	At-risk Capital		Total Members' Equity
		Capital Stock	Retained Earnings	
Balance at December 31, 2018	($193)	$8,258	$443,360	$451,425
Net income			21,572	21,572
Patronage accrual adjustment			112	112
Change in other comprehensive income	92			92
Capital stock:				
Issued		607		607
Retired		(458)		(458)
Balance at June 30, 2019	($101)	$8,407	$465,044	$473,350
Balance at December 31, 2019	$-	$8,532	$471,360	$479,892
Net income			**20,960**	**20,960**
Patronage accrual adjustment			**(120)**	**(120)**
Capital stock:				
Issuance of stock in exchange for customer stock receivable		**610**		**610**
Release of customer stock receivable associated with retired stock		**(432)**		**(432)**
Less: Capital stock receivable		**(8,710)**		**(8,710)**
Balance at June 30, 2020	**$-**	**$-**	**$492,200**	**$492,200**

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements (unaudited)

Note 1 - Organization and Significant Accounting Policies

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Financial Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the six months ended June 30, 2020 are not necessarily indicative of the results to be expected for the year ended December 31, 2020. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the consolidated financial statements and related notes included in our 2019 Annual Report for the year ended December 31, 2019.

The consolidated financial statements present the consolidated financial results of Frontier Farm Credit, ACA (the parent) and Frontier Farm Credit, FLCA and Frontier Farm Credit, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board issued ASU 2016-13 "Measurement of Credit Losses on Financial Instruments". The guidance was originally effective for non-United States Securities Exchange Commission filers for the first quarter of 2021. In November 2019, the Financial Accounting Standards Board issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted. The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. We do not expect to early adopt the standard. We are currently assessing the impact this guidance will have on our financial statements upon adoption, which will be impacted by the composition of our portfolio and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption. Implementation efforts are underway and include the development and testing of our system, data requirements, guidance interpretation and related accounting policy decisions, and consideration of relevant internal processes and controls. We are currently unable to estimate the impact on our financial statements.

Refer to Note 2 in our 2019 Annual Report for additional information on other accounting standards that have been issued but are not yet effective. We are currently evaluating the impact of the guidance on our Consolidated Financial Statements.

Note 2 – Loans and Allowance for Credit Losses

Loans consisted of the following (dollars in thousands):

	June 30, 2020		December 31, 2019	
	Amount	**Percentage**	Amount	Percentage
Long-term agricultural mortgage	**$1,231,011**	**58.1 %**	$1,135,499	55.6 %
Production and intermediate term	**507,252**	**23.9**	549,801	26.9
Agribusiness	**231,910**	**11.0**	216,970	10.6
Rural residential real estate	**83,282**	**3.9**	88,395	4.3
Rural infrastructure	**56,306**	**2.7**	46,671	2.3
Agricultural export finance	**9,196**	**0.4**	5,596	0.3
Total loans	**$2,118,957**	**100.0 %**	$2,042,932	100.0 %

Credit Quality

One credit quality indicator we utilize is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- acceptable – loans are expected to be fully collectible and represent the highest quality;
- other assets especially mentioned (OAEM) (special mention) – loans are currently collectible but exhibit some potential weakness;
- substandard – loans exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- doubtful – loans exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- loss – loans are considered uncollectible.

We had no loans categorized as loss at June 30, 2020 or December 31, 2019.

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type (dollars in thousands):

As of June 30, 2020

	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
Long-term agricultural mortgage	$1,119,195	89.55%	$54,525	4.36%	$76,038	6.09%	$1,249,758
Production and intermediate term	430,833	83.74%	49,374	9.60%	34,299	6.66%	514,506
Agribusiness	212,198	91.19%	14,613	6.28%	5,877	2.53%	232,688
Rural residential real estate	79,395	95.10%	2,105	2.52%	1,985	2.38%	83,485
Rural infrastructure	52,546	93.19%	1,844	3.27%	1,995	3.54%	56,385
Agricultural export finance	9,210	100.00%	-	-	-	-	9,210
Total	$1,903,377	88.69%	$122,461	5.71%	$120,194	5.60%	$2,146,032

As of December 31, 2019

	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
Long-term agricultural mortgage	$1,024,353	88.81%	$47,344	4.10%	$81,792	7.09%	$1,153,489
Production and intermediate term	472,391	84.45%	38,594	6.90%	48,372	8.65%	559,357
Agribusiness	209,737	96.36%	4,564	2.10%	3,351	1.54%	217,652
Rural residential real estate	84,243	95.11%	1,478	1.67%	2,849	3.22%	88,570
Rural infrastructure	43,824	93.75%	2,923	6.25%	-	-	46,747
Agricultural export finance	5,606	100.00%	-	-	-	-	5,606
Total	$1,840,154	88.84%	$94,903	4.58%	$136,364	6.58%	$2,071,421

Delinquency

The following table provides an aging analysis of past due loans and related accrued interest receivable by loan type (in thousands):

As of June 30, 2020	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
Long-term agricultural mortgage	**$3,522**	**$ 3,093**	**$6,615**	**$1,243,143**	**$1,249,758**	**-**
Production and intermediate term	**5,160**	**2,302**	**7,462**	**507,044**	**514,506**	**-**
Agribusiness	**684**	**612**	**1,296**	**231,392**	**232,688**	-
Rural residential real estate	**308**	**276**	**584**	**82,901**	**83,485**	130
Rural infrastructure	**248**	**-**	**248**	**56,137**	**56,385**	-
Agricultural export finance	**-**	**-**	**-**	**9,210**	**9,210**	-
Total	**$9,922**	**$6,283**	**$16,205**	**$2,129,827**	**$2,146,032**	**130**

As of December 31, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
Long-term agricultural mortgage	$3,699	$ 2,282	$5,981	$1,147,508	$1,153,489	$ -
Production and intermediate term	1,334	1,427	2,761	556,596	559,357	-
Agribusiness	8	518	526	217,126	217,652	-
Rural residential real estate	-	751	751	87,819	88,570	-
Rural infrastructure	-	-	-	46,747	46,747	-
Agricultural export finance	-	-	-	5,606	5,606	-
Total	$5,041	$4,978	$10,019	$2,061,402	$2,071,421	-

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Accruing loans include principal and interest. The following tables present information concerning risk loans (in thousands):

	As of June 30,	
	2020	2019
Risk loans with specific allowance	**$ 2,981**	$ 1,666
Risk loans without specific allowance	**11,927**	12,950
Total risk loans	**$14,908**	$14,616
Total specific allowance	**$1,593**	$1,024

	For the six months ended June 30,	
	2020	2019
Interest income recognized on nonaccrual loans	**($ 25)**	$126
Interest income on risk accrual loans	**207**	48
Interest income recognized on risk loans	**$182**	$174
Average risk loans	**$19,289**	$17,592

At June 30, 2020, there were approximately $807 thousand in commitments to lend additional funds to customers whose loans were at risk.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

We recorded no troubled debt restructurings in the three months ended June 30, 2020 and June 30, 2019.

The following table presents information regarding troubled debt restructurings that occurred within the previous twelve months for which there was a subsequent payment default during the period ended June 30 (in thousands):

	2020	2019
	Recorded Investment	Recorded Investment
Long-term agricultural mortgage	**$646**	-

Troubled debt restructurings outstanding at June 30, 2020, totaled $4.1 million, of which $4.1 million were in nonaccrual status. There were $0.5 million in additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring at June 30, 2020.

Allowance for Loan Losses

An analysis of changes in the allowance for credit losses follows (in thousands):

	June 30,	
Allowance for loan losses	**2020**	2019
Balance at beginning of year	**$9,600**	$8,800
Provision for loan losses	**1,663**	574
Charge-offs	**(455)**	(240)
Recoveries	**192**	166
Balance at end of quarter	**$11,000**	$9,300

	June 30,	
Reserve for unfunded lending commitments	**2020**	2019
Balance at beginning of year	**$800**	$700
Addition of unfunded lending commitments	**300**	200
Balance at end of quarter	**$1,100**	$900

We recorded a $2.0 million provision for credit losses (net of provision for loan losses and unfunded lending commitments) for the first six months of 2020, as compared with a $0.8 million provision during the first six months of 2019. The portfolio experienced improvement in the grain industry but this was offset by deterioration in the renewable fuels, cow/calf and beef feedlot portfolios. Net charge-offs for the first six months of 2020 were $263 thousand compared to net charge-offs of $74 thousand in the same period a year ago.

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, portfolio quality, estimated collateral values, and current economic and environmental conditions.

Note 3 – Investment in Rural Business Investment Company

We and other Farm Credit System institutions are among the limited partners invested in two Rural Business Investment Companies (RBICs). The RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. Our total current commitment is $7 million with varying commitment end dates through December 2025. Certain commitments may have an option to extend under specific circumstances. Our investment in the RBICs totaled $186 thousand at June 30, 2020.

Note 4 – Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2019 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2020, or December 31, 2019. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (in thousands):

	Fair Value Measurement Using			
As of June 30, 2020	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Loans	-	-	**$1,783**	**$1,783**
Other property owned	-	-	-	-

	Fair Value Measurement Using			
As of December 31, 2019	Level 1	Level 2	Level 3	Total Fair Value
Loans	-	-	$1,099	$1,099
Other property owned	-	-	-	-

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they fall under Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they fall under Level 3.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they fall under Level 3.

Note 5- Commitments and Contingencies

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

We are among the forming limited partners in a Rural Business Investment Company. Refer to Note 3 for additional discussion.

Note 6- Subsequent Events

We have evaluated subsequent events through August 4, 2020 which is the date the financial statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.